



MOE BILLER
President

American Postal Workers Union, AFL-CIO

817 Fourteenth Street, N.W., Washington, D.C. 20005 • (202) 842-4246

Testimony of

Moe Biller, President
American Postal Workers Union,
AFL-CIO

before the

House Post Office and Civil Service Committee

on

Designing a Supplemental Retirement Plan for
New Postal and Federal Employees

April 23, 1985

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Mr. Chairman, I am pleased to be here today on behalf of 325,000 postal workers to advise the Committee on the design of a supplemental retirement plan that will provide Civil Service Retirement benefits for new hires. The Committee has an awesome responsibility ahead of it because the supplementary plan will become an important part of the compensation of all postal and federal employees hired after December 31, 1983 just as the current system is for those hired prior to that date. Furthermore, your actions on this new plan will make a statement on national retirement policy that may affect the circumstances of future retirees from state and local governments and private employers as well.

The House Post Office and Civil Service Committee begins its work under a charge set forth two years ago by the distinguished Chairman and your colleagues, Speaker O'Neill and Chairman Rostenkowski. In that reassuring communication to House Members, you pledged your support for retirement benefits for new hires that would be comparable with those of the current Civil Service Retirement program, and you opposed Administration efforts to reduce current benefits. We appreciated that statement of support, Mr. Chairman, and, with your permission, I would like to submit that letter for the hearing record.

Before I speak to the subject of today's hearing, I want to remind the Committee that the events of 1983 that place you in the position of having to hold these hearings were mistaken. Social Security coverage for new federal and postal employees was not needed and not wanted. The financial benefit to Social Security of the coverage extension was very modest in the short-run and non-existent in the long-run.

The main thing that Social Security coverage did accomplish was to present the employees and the Congress with a large and unnecessary legislative headache. We warned Congress in 1983 that it would be difficult to come up with a retirement system for new hires that would treat both them and the existing employees fairly and that would protect the future benefits of the people expecting to retire under Civil Service Retirement. Nothing that we have seen since suggests otherwise. A truly satisfactory solution to the legislative requirement we face may be beyond the reach of any approach other than the obvious one of dropping Social Security coverage.

Principles to Guide Plan Design

Assuming Social Security coverage for new hires is continued, I want to suggest several broad principles as guidelines for design of a supplementary plan for new hires. First, and most important, the supplementary benefit plan must provide for an adequate retirement income together with Social Security if Social Security coverage is continued. In considering this guideline, I urge the Committee to shun the example set by many private plans that offer an attractive package on retirement day,

but then let inflation eat away its value year after year thereafter. We need a plan that is just as adequate when our retirees are age 80 as it was when they were 60.

The second guideline I urge you to consider is to keep the treatment of new hires specifically comparable with that of employees under the existing Civil Service Retirement system. We recognize that the continuation of Social Security coverage would make it impractical to structure a comparable plan that is exactly like the current one. However, experience in State retirement systems has shown that severe personnel problems will develop if new hires are treated differently from the people next to them in the workplace. Both groups must be assured that they will be getting a similar value in benefits for the contribution that they make.

Third, it is very important that the supplementary plan's financing be designed so that it contributes to the integrity of the funding base for the current system. Two million retired federal and postal workers and survivors depend on that funding, and many people now working will join their ranks over the next few decades. We must not pull the financial rug out from under them. The supplementary plan's funding must be coordinated closely with that of the existing plan and its assets kept within the Civil Service Retirement trust fund.

Key Issues in Plan Design

These guiding principles lead me to believe that certain features are absolutely necessary for inclusion in any supplementary plan -- these are, first, a defined benefit formula that

is designed to make it easy for a worker to predict what his or her retirement income will be; second, a full COLA; and third, eligibility for an adequate retirement income at age 55 with 30 years of service.

There are many other critical issues that need your attention. One is the idea that a tax-deferred thrift plan should be a part of the new system. I will oppose this idea if the thrift plan is being proposed as part of the basic protection the average postal or federal retiree needs to attain an adequate income. However, if Social Security coverage continues and the defined benefit supplemental plan provides an adequate retirement for the average retiree so that the thrift plan is merely a source of additional retirement income for those who want it, then I think that the Committee should consider a thrift plan.

Another major issue is whether pre-1984 employees will be given an option to switch from the current Civil Service Retirement system to the new plan. There would be two technical problems raised by allowing people to switch. First, if a large number of people were to switch to the supplementary plan, the funding for the current system would be placed in extreme jeopardy. Second, legislation that would permit individual federal and postal employees to opt for Social Security coverage would certainly reopen the whole coverage issue and would lead to intense pressure for Congress to mandate coverage for additional categories of employees. For these reasons, I believe that the supplementary system should be limited to the new hires.

And now, Mr. Chairman, I want to address the specific issues you raised in your letter of invitation.

Cost. I stated earlier that the new hires should have a retirement system that is truly comparable to the current system. The long-run cost of retirement systems is a very basic way to judge this objective of comparability. A system for new hires and the current system should be at the same cost level as a percent of payroll in order to be comparable. OPM estimates this level is 27.9 percent of payroll. The Reagan Administration wants to reduce this figure to 20 percent or less. I strongly oppose their position. A system that costs less will be worth less to the workers and will represent a breach of faith with federal and postal employees based on the assurances given in 1983 when Congress enacted Social Security coverage over our vigorous objection.

The Administration's efforts to reduce employee benefits are not limited to retirement. They changed FEHBA in 1981 and reduced the value of our health benefits by \$830 per postal employee over three years. This benefit loss undermined the 1981 postal contract. Now they are repeating the FEHBA voucher proposal that Donald Devine advocates. This voucher approach to health insurance would fundamentally change FEHBA and reduce its value to postal workers, thereby undermining the contract just agreed to this past December. If the Committee is being asked to consider a lower-cost retirement system you must take into account the deterioration in our health plan in arriving at a position on the appropriate cost of retirement for federal and postal employees.

Relationship to Social Security. I favor a defined benefit retirement plan for new hires that is independent of the Social Security system. Integrating the plan with Social Security, as private firms often do, would achieve little in smoothing out the "tilt" in the Social Security benefit formula because the range in salaries of covered employees at retirement is not very large. This is especially true for postal workers.

An independent plan will avoid the problems that integration creates. You heard from state pension administrators three weeks ago that integration makes a retirement plan much harder to administer and explain to employees.

The real purpose of integration, when all is said and done, is to offset the Social Security "tilt" by shifting benefits from lower-paid to higher-paid workers. If a thrift plan is a part of the package, this shift will be accomplished anyway, because the tax savings feature of such a plan will be more attractive the higher the employee's salary.

Employee Contributions. It is very important that mandatory employee retirement contributions be the same for both the new hires and the other employees. Therefore, new hires should pay 1.3 percent of salary into the Civil Service Retirement trust fund if they continue to pay the Social Security tax.

The total contribution rate for new hires would increase somewhat over time when Social Security tax increases already legislated go into effect. To maintain parity between the two employee groups over the years, the 1.3-percent contribution to the supplemental plan could automatically decline whenever the Social Security tax goes up.

Funding. The funds contributed for the supplemental retirement plan by the employees and their agencies should be paid into the existing Civil Service Retirement trust fund. It is important for the fiscal integrity of the current system that the funding of CSRS and a supplementary plan be tied together and operated under a parallel set of rules.

I do not believe that it is necessary to build up a fund that will be sufficient to cover all projected liabilities in advance of their being paid. Advance funding is critical to the security of private-sector workers, since even the largest corporations can and do have trouble meeting their financial obligations. However, the federal government is in a totally different circumstance due to its taxing powers and monetary controls. Not only is advance funding unnecessary, but it would probably be undesirable politically to build up a huge retirement fund. We already see critics of Social Security complaining about the buildup of that program's assets resulting from the 1983 amendments.

Vesting. The vesting period for the supplementary plan should be less than the period prevailing in the private sector. Most private plans vest in 10 years, which is the longest vesting period allowable under ERISA. The plan for new hires should not be guided by a minimum acceptable standard but should set its own objective based on a desirable policy for federal and postal employees.

The OPM Plan

In closing, Mr. Chairman, I want to express my opposition to the plan that Donald Devine presented to the Committee earlier

this month. His plan -- which was offered by an unconfirmed official and which does not have the Administration's endorsement -- will be strongly opposed by employees if it ever does become a formal proposal.

There are several reasons why I oppose it. First, the government would commit only 19 percent of payroll to the plan, which is only about two-thirds as much as the commitment to the current system. Thus, new federal and postal employees as a group would be much worse off than their fellow workers. This level of cost is similar to the level that would result for the current system if Congress went along with the severe cuts Devine proposes every year. Congress has consistently rejected the idea that Civil Service Retirement should be reduced to that level.

A second reason to oppose this plan is that it puts all the risk of economic uncertainty on the individual worker. There would be no definite benefit supplement keyed to final salary level. Instead, the size of a person's supplement to Social Security would depend on the employee's entire salary history and the movement of interest rates over his or her entire career. It makes little sense to put a person's future retirement income on such an unpredictable basis.

Those private organizations that offer only investment-type plans for retirement at least give their employees some choice as to types of investments. The Devine proposal would put all the funds in very conservative Treasury issues that historically do little better than keep up with inflation. The employee would have no right to place those funds in any other type of investment.

Another fault of the Devine plan is the so-called "super IRA". This feature might be a good way for the higher-salaried employees to accumulate savings, but the worker in a low tax bracket who needs all of his or her take-home pay to meet the family living expenses would gain little or nothing from a "super IRA". I suggest that the Ways and Means Committee would find it too "super" anyway and cut back on its generosity, since it would allow two-and-one-half times as much tax shelter as the current IRA.

Finally, Mr. Devine has offered "bait" to the pre-1984 employees to get them to switch to his new plan, which would leave the current Civil Service Retirement system weaker financially and politically. I stated earlier that I thought it would be a mistake to let employees switch out of a good, sound retirement system. It would be a tragedy to let them be "baited" into accepting the bad deal Devine is offering.

Conclusion

Thank you, Mr. Chairman, for providing me the opportunity to express my views on the issues raised by the new hires' supplementary retirement plan. I will be glad to respond to any questions Committee Members may have.